"Hey Wal-Mart, Don't You Know?! Sweatshop Labor's Gotta. . . Stay?"

Honduran Maquila Factories, Game Theory, and the Contextual Value of Money.

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The protests against globalization in Quebec City, and others across college campuses nationwide have once again brought the myriad implications of international trade to America's headlines. What has motivated many of these demonstrators has been their outrage over the conditions in overseas factories that produce garments for United States' markets. According to these protestors, these "sweatshops" exploit their workers by having them work in sub-human conditions for sub-living wages so that the large multi-national corporations (MNC) may extract enormous profits. This represents what many Americans view as the dark underbelly of globalization. To combat this perceived evil, many well intentioned, but misinformed, worker's rights advocates have supported boycotts of sweatshop-made goods, have pressured the World Trade Organization to issue labor standards, and have even pressured individual nations in the developing world to ameliorate their worker's conditions. Despite their good intentions[1], these protestors are ultimately hurting the very people that they wish to help: the foreign workers. In this paper I will trace the history of Central American sweatshops, explain why they exist, provide a theory as to why the wages seem so low, and then offer a possible realistic way

[1] Of course many of the labor rights activists are really cloaked protectionists whose motives are less than altruistic.

to improve the conditions of foreign workers without pricing them out of the international marketplace.

I. Kathie Lee Gifford, College Logos, and Angry Protestors

In 1995, at the height of her television career in which she costarred in the chatty talk show "Live with Regis and Kathie Lee", investigators from the National Labor Committee discovered that Kathie Lee Gifford had been employing Honduran sweatshop workers to assemble her clothing line that was being sold at Wal-Mart stores.[2] Ten percent of those working at the Honduran factory were between the ages of thirteen to fifteen years old and several other female workers were pregnant[3]. All the workers were often required to put in 75-hour workweeks, sometimes on their feet for 15-hour shifts[4]. When the news broke, Gifford almost immediately became a media pariah. Even though she quickly proclaimed ignorance and denounced the sweatshops[5], her reputation suffered greatly. A teary eyed Gifford made her appeal to the nation on the a segment for ABC's "PrimeTime Live" where she proclaimed her innocence: "I felt like I was being of all people, being kicked in the teeth for trying to help kids."[6]

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[2] See "Kathie Lee Fashions Made by Child Labor" at www.uniteunion.org/sweatshops/sweatshoparchive/kathielee/kathielee.htm (visited April, 2001).

[3] Id. at 1.

[4] Id. at 1.

[5] Gifford went out front on the issue of sweatshops and had several high profile meetings with antisweatshop activists. See "The Sweatshop Saga Continues" at www.bobbin.com/media/96june/sweat.htm. (Visited April, 2001). Ironically, part of the proceeds of her clothing line went to various children's charities.

[6] See "Kathie Lee, Disney, and the Sweatshop Uproar" by Norman Solomon in the Albion Monitor at www.monitor.net/monitor/sweatshops/ss-solomon.htm (visited March, 2001). The article not so subtly implied that the motivation behind the segment was that Disney, who owned both "PrimeTime Live" and the "Live with Regis and Kathie Lee", was attempting to improve the latter's ratings.

Ever-willing to pick up the sword of a righteous cause, college students from University of Iowa to Berkeley to Yale have held demonstrations, sit-ins, and even hunger strikes to protest the use of sweatshop labor conditions and wages in the creation of garments bearing their college logo[7]. In the spring of 1999 the Worker's Rights Consortium (WRC) was formed, with the backing of "protectionist U.S. unions"[8], to see that "codes of conduct have been developed by colleges and universities across the country to ensure that goods are produced under conditions that respect the basic rights of workers"[9]. These standards effectively impose a boycott on products assembled in developing nations. Students have attempted to, through a variety of tactics, bully their school administrators and university presidents into adopting the standards of the WRC[10], and have been quite successful.

The WRC refuses to work with the large MNCs[11] who contract out to these foreign factories and thus offer no monitoring mechanisms[12] at the production end. Instead of attempting to improve the lot of these foreign workers, who flock to these relatively covetous maquila jobs[13], the WRC merely rejects the products that they have produced across-the-board, which has the effect of throwing out the baby with the bathwater (the baby being the relatively high paying factory jobs and the bathwater being the poor conditions).

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[7] Students at Brown University protested that they wanted the hourly wages of foreign workers to be doubled, obviously ignoring the devastating impact that would have on the actual workers. See "Brown students stage protest of clothing made at sweatshops" by Marie Sanchez in the Providence Journal at www.brown.edu/Students/Student_Labor_Alliance/archives/walmart.htm (visited April, 2001).

[8] See "Knight is Right" by Thomas Friedman an Op-Ed for the New York Times at wysiwyg://72/http://www.nytimes.com/library/opinion/friedman/062000frie.htm (visited March, 2001).

[9] See the Worker's Rights Consortium's Mission Statement at www.workersrights.org (visited April, 2001).

[10] See Knight Id. at 1.

[11] Id. at 2.

[12] The WRCs only monitoring mechanism is an after the fact label inspection. See Id. at 2.

As a response to the student's protests and the WRC, a group of "academic economists and lawyers who are specialized in international trade policy and international economic law"[14] have created the Academic Consortium on International Trade (ACIT). The ACIT issued an open letter to "the presidents of American universities and colleges with regard to the issues raised by the Anti-sweatshop campaign on American campuses and the decisions that have been taken."[15] The letter rightly concludes that "if the MNCs are persuaded to pay even more to their apparel workers in response to what the ongoing studies by the anti-sweatshop organizations may conclude are appropriate wage levels, the net result would be shifts in employment that will worsen the collective welfare of the very workers in poor countries who are supposed to be helped."[16]

The WRC approach to dealing with the problems of poor working conditions and low wages[17] is brash and irresponsible. Their all-or-nothing approach does nothing to actually help the foreign workers. Similar to many other radical groups[18], the WRC in their efforts to remain ideologically pure are sacrificing the very causes they are fighting for.

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[13] As will be explained later in the paper, these maquila jobs are relatively much more desirable than their domestic equivalents.

[14] See the Open Letter to university presidents by the ACIT at www.spp.umich.edu/rsie/acit/ (visited April, 2001).

[15] Id. at 1.

[16] Id. at 1.

[17] These wages are only low in the context of United States wages.

[18] This strain of thinking has descended from the Jacobins down through modern Marxists. The idea that any dealings with the ancien regime will contaminate the cause is still evident in many leftist groups.

II. Why Do Sweatshops Exist?

A) The Chicken Game

The relationship between any two actors in which there is an asymmetrical bargaining power can be expressed in what is called the "Chicken Game". The basic component of most asymmetrical bargaining relationships is that one actor stands to suffer more greatly from the deal falling through than the other. This gives the stronger actor more holdout power to extract more advantage from the weaker actor. The relationship between Honduran workers and foreign industrialists is one such relationship.

The demand for labor is weak is these markets because productivity is generally low due to the lack of complimentary inputs, such as capital and skills[19] and because the supply of unskilled labor is abundant. This allows a potential employer to holdout longer in the negotiations with any specific laborer, or completely end the relationship with little harm to themselves. This is what is called a buyer's market.

If left to negotiate with each other with no external forces exerted on them, then a Chicken Game scenario will occur[20]. For the purpose of the game only two moves are allowed: Give In (GI) or Hold Strong (HS). For the Industrialist (I), to Give In is to negotiate a wage higher than the current wages paid to a maquila worker and to Hold Strong is to insist on the current wages or no deal at all. For the Worker (W), to Give In

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[19] Partially derived from the "Summary of Sweatshop Discussion" by Linda Lim at the "Global Summer Business Institute University of Michigan Business School May 2000.

is to maintain the same wage level and to Hold Strong is to demand higher wages or no deal at all. The Values will be 1 to 4, 4 being the most desirable outcome for a particular player and 1 being the least desirable for a particular player. The game is an iterated one that would be played again and again until ultimately equilibrium would exist. The Values will be assigned as follows.

1) If I=GI and W=GI then I=3 and W=3

2) If I=HS and W=GI then I=4 and W=2

3) If I=GI and W=HS then I=1 and W=4

4) If I=HS and W=HS then I=2 and W=1

For the Industrialist, the possible option of Give In yields either a 3 or a 1, while the option of Hold Strong yields either a 4 or a 2. For the Worker, the possible option of Give In yields either a 3 or a 2, while the option of Hold Strong yields either a 4 or a 1. In this game, the Industrialist will always choose to Hold Strong because the worst he or she could do is a 2, while if he chose to Give In then he could possibly have a 1. The Worker's move will likewise result in them choosing to Give In rather than to Hold Strong because of the worst that could be suffered under a Give In is a 2 and the worst in a Hold Strong is a 1. This will, perhaps after some strategizing, result in an equilibrium wherein the Industrialist always Holds Strong and the Worker always Gives In.

The most obvious way to change this state of equilibrium is to have the Workers cooperate with each other to demand a certain wage, then the "buyer" would have no option but to pay that wage. This is nearly impossible due to another game model that explains behavior: the Prisoner's Dilemma.

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[20] Game Theory generally requires certain assumptions of behavior such as rationality, self-interest, risk aversion and the other requirements. One main result of this is that in game theory it is usually required

B) The Prisoner's Dilemma

Whenever two actors that are symmetrical in bargaining power interact for the first time, then a game model called a Prisoner's Dilemma exists. Since neither actor can accurately predict the actions of the other, they each will act so as to ensure that their choice yields a result such that the lowest possible outcome is minimized. The typical scenario involves two parties that have not, or cannot, communicate with each other. If the parties cooperate, then a superior outcome can be achieved, if they cannot, then either one is better off protecting themselves by choosing the selfish option. This explains the behavior of developing nations and of the workers of those nations.

A hypothetical Prisoner's Dilemma can be created between nations of the developing world. Assume all the developing nations came together to agree to raise labor standards and wages at a certain level. If all the nations stick with the agreement, then all will be better off. However, the urge to cheat is strong, as an individual cheating nation is the best off. The following example explains why cooperation among different actors is so difficult. The Values will again be 1 to 4, 1 being the least desirable and 4 being the most desirable. Country 1 (C1) and Country 2 (C2) have entered into a deal setting certain minimum labor conditions and wages near those enjoyed in developed nations. Each country has two options Stay (S) or Cheat (C). To Stay means that that country stays true to the deal and to Cheat means that that country has reneged on the deal and has accepted lower standards and wages.

1) If C1=S and C2=S then C1=3 and C2=3

2) If C1=S and C2=C then C1=1 and C2=4

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that the players seek to maximize their minimum value as a product of their risk aversion.

3) If C1=C and C2=S then C1=4 and C2=1

4) If C1=C and C2=C then C1=2 and C2=2

Both nations have identical incentives in this example. If either C1 or C2 Stay, then their possible outcomes are 3 or 1. If either C1 or C2 Cheat, then their possible outcomes are 2 or 4. Even though they both would be better as-a-whole if they both stuck to the agreement, since neither knows what the other is going to choose they both will preemptively Cheat. This problem is magnified by the fact that all developing nations would have to remain true to the agreement. Thus, a race-to-the-bottom equilibrium will be created.

On the opposite end, the same problem exists amongst the developed nations. Assume that all the powerful developed nations (or MNCs) created an agreement the terms of which are that they will not contract with developing nations that do not have a certain baseline standard of labor conditions and wages. This would inevitably increase the cost of labor and therefore of goods. This would create incentives for individual developed nations to cheat and hire labor below the floor. The nations that cheated would have a competitive advantage over those that did not. Because no nation knows what any other nation is going to do, all will preemptively cheat, destroying any agreement that was made.

Both the Chicken Game and the Prisoner's Dilemma are simple ways to illustrate the realities of an international market that contains huge wealth disparities. These wealth disparities will inevitably create differing wages and labor conditions, as both the laborers and the industrialists are willing to take advantage from and benefit from them.

III. The History of Maquilas

The term maquila refers to a Latin American factory working under contract to a foreign firm that receives imported raw materials or semi-finished goods, then assembles them for reexport and sale around the world[21]. It is these factories, at least in Central America, that are the ones referred to as "sweatshops". Maquilas first appeared in Honduras around 70 years go[22], but it was not until 1987, when the National Congress of Honduras passed the Export Processing Zone Law[23], that maquilas really took off. That law, combined with Honduras' partnership in the Caribbean Basin Initiative[24], began the surge of maquilas that have since begun to pop up all over Honduras. These maquilas sprouted up in Free Trade Zones (FTZ) that attracted foreign investors with exemptions from local, export, and sales taxes[25]. The cheap cost of labor, combined with the tax incentives, make the FTZ maquilas very desirable for labor intensive foreign industries such as the apparel industry.

According to some conservative estimates[26], as many as 60,000 workers are employed in the Honduran maquila industry[27]. The dramatic increase of the maquilas

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[21] See "Central American workers in the hands of the maquilas" in Le Monde diplomatique at www.monde-diplomatique.fr/en/1998/03/16zones (visited April, 2001).

[22] See "The Maquila is an old idea energized by new ideas" in Honduras This Week at www.marredr.com/htw/special/maquilas/4.htm (visited April, 2001).

[23] Id. At 1.

[24] Id.

[25] Id.

[26] Other estimates put the number as high as 90,000 Hondurans. See "Central American workers in the hands of the maquilas" in Le Monde Diplomatique at wysi://319/http://www.monde-diplomatique.fr/en/1998/03/16zones (visited April, 2001).

[27] See "Strikes uncommon but not nonexistent among maquila workers" by Ana Cecilia Membreno in Honduras this Week at www.marrder.com/htw/special/maquilas/8.htm (visited April, 2001).

across Honduras has produced some "wrenching change[s]"[28] in Honduran society. Most of the workers at the maquilas are young women between the ages of 16 and 35 years of age[29] who left the countryside for work in the maquilas that are typically outside of urban centers[30]. Many of these young women "abandon their studies" and often "leave their own young children alone or with relatives"[31] to work at these sought after jobs[32]. The implications of these demographic shifts are numerous, not least among them are the transfers of wealth from the formerly all male workforce to the nearly all female workforce- that employers typically think is more desirable to have in the apparel industry[33], the population explosions around the maquilas, the corresponding increases in the support and service industry that accommodates the maquilas[34], and the resultant glut in the labor market for other lower paying service jobs, such as domestic cooks and maids[35].

IV. The Wages of Maquilas Workers

The wages paid to maquila workers vary significantly among the different maquila factories, and even within one factory individual worker's wages differ because

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[28] See "Maquila Republic" in Honduras This Week at www.marrder.com/htw/special/maquilas/9.htm (visited April, 2001).
[29] See Strikes Id. at 1.
[30] See Republic Id. at 1.
[31] Id. at 2.
[32] See Strikes, Id. at 1.
[33] See Republic
[34] See Republic Id. at 3.
[35] Id. The author quotes a Honduran professor who laments, "People in a nation accustomed to hiring domestic help cheaply can no longer find cooks and maids because they're all working in the maquilas for better money, he says. The middle class then must do its own housework, sometimes spending the entire weekend catching up on laundry the domestic help used to keep done every day." The author concludes, without the slightest hint of sarcasm that, "thus the misery is shared throughout the social strata."

of the monetary incentives for extra work[36]. The average wages for Honduran maquila workers in 1999 ranged from between about $108 dollars a month to around $163 dollars a month[37]. The whole range of wages for maquila workers rests above the minimum wage imposed by law in Honduras[38] which was "increased by 25% to Lps1,350 ($94.7) per month or approximately Lps61 ($4.3) per day"[39]. This minimum wage is fact more aspirational than a real economic floor as the "majority of Hondurans earn no more than Lps885 ($61) per month, or about Lps44.2 ($3) per day"[40], which is obviously much lower than the official minimum wage. This gap between local wages and the wages paid at the maquila has resulted in a "wage premium" for maquila workers of 10%[41].

In Nicaragua, which has a similar economic system as Honduras, the typical maquila worker's wages are around $120 a month, while "school teachers earn $40, policemen $30, health service doctors and nurses less than $100"[42]. As explained in an article entitled "Maquila Republic"[43] young women are leaving their studies and low paid laborers are leaving their other professions to work in the maquila factories en masse[44].

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[36] See "Central American Women Risk Jobs to Denounce Sweatshops" by Leslie Wirpsa in Flashpoint! Electric Magazine at www.webcom.com/hrin/magazine/july96/maquilas.htm (visited April, 2001). According to this site, as some motivated women exceed their minimum quotas and are awarded for it, the managers have those women's quotas increased. It must be noted however, that no other site has indicated this pattern of perverse incentives.

[37] These numbers were derived from the "Wage Indicator" chart on the Project Honduras web site at www.projecthonduras.com/wageindicator.htm (visited April, 2001). The range was between what was described as a "Maquila Worker (female, garments, sewing machine operators)" to what was described as a "Maquila Worker (typical good one)" See Id. at 2. The conversion rate was roughly 15.31 lempiras to the dollar, which was the rate from the "Currency Converter for Travelers" at www.oanda.com. (Visited April, 2001).

[38] See Project Honduras Id.

[39] See Id. at 1. (Quoting Marco Caceres.)

[40] See Id. at 1. (From Diario El Tiempo)

[41] See "Nike Wrongfoots the student critics" by Jagdish Bhagwati in the Financial Times at www.ft.com (visited March, 2001) (citing Ann Harrison of Columbia Business School).

[42] See Le Monde Diplomatique Id. at 3.

[43] See Republic at 29.

[44] Assuming, arguendo, that the demand for labor would remain constant if wages were forcibly increased, what perverse incentives would this have on seeking an education or acquiring a skill? If unskilled jobs would outpace skilled jobs even more what incentives would there be to obtain a skill?

If Honduran laborers are affirmatively seeking out these "sub-living wage" jobs as an alternative to what must be called their sub-sub-living wage jobs, then why is the current litany of the leftist protestors that these workers are "forced" to work and are "exploited" once there?

V. Are The Maquila Workers Being Exploited?

The Marxist view of wage labor is that it is inherently exploitive. This remains true no matter what level of wages one makes, as all wage laborers are on a spectrum of exploitation. The subterranean notions that many leftist protesters have concerning wage labor reflect this view. This economic approach derives from the largely outdated view that "value is to be determined in production [and] since the cost of production could be reduced to labor"[45] then all value derives from labor.

Marx wrote that wage labor is systematically undervalued[46]. Marx viewed labor as a commodity that capitalists buy and sell. The laborer's price is his wage that he is given, which is usually set at "the value of the goods and services that a working-class family needed in order to get by"[47]. This is called the Subsistence Theory of Wages[48]. This amount is set and is not affected by what the laborer actually creates. Using these parameters, that were largely taken from the early 19th century economist David

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[45] See "Human Society and the Global Economy" by Kit Sims Taylor, Chapter 6: Theories of Value at //online.bcc.ctc.edu/econ100/ksttext/Value/value.htm (visited March, 2001).

[46] See Generally "Wage Labor and Capital" by Karl Marx at csf.colorado.edu/psn/marx/Archive/1849-WLC.htm (visited April, 2001).

Ricardo[49], Marx followed a single marketable item from production through the final sale to prove that labor is undervalued. A typical Marxist example[50] is that a capitalist rents a loom for a year and buys some yarn for 100 schillings, rents a warehouse for 100 schillings, and hires a laborer for 100 schillings (his subsistence wage). The laborer produces 100 towels in a year. The total cost of production of the towels is 300 schillings (loom + yarn + rent + labor). If the capitalist sells the towels for 400 schillings where did the "extra" 100 schillings come from? Marx and others claim that it comes from the labor that produced it. The problem, according to Marx, is that even though the laborer should really be valued at 200 (the value he added to the towels), he is only paid 100, the excess 100 unfairly going to the capitalist. Since labor is the only creator of value, all things must be valued in terms of labor. The only way to create an objective value of labor is to define value as the amount of labor in time that was put into creating the thing. Marx thus essentially sought to establish an objective value of labor as defined by hours of labor.[51]

This idea of all labor hours becoming interchangeable quickly turns out to be troublesome "[f]or instance, if a baker worked an hour to bake a loaf of bread, anyone else should be willing to give up an hour's work for that bread[, but] this scheme leaves the baker with no way to decide how much of his time to devote to baking bread rather than cakes or tarts."[52] Marx also does not differentiate between quality and quantity of labor, nor does it address the fact that some laborers are more proficient at some activities

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47 See Human Society, Id. at 4.
48 See Id. This theory is not Marx's.
49 See Id.
50 This is an amalgamation of the examples found in "Wage Capital and Labor".
51 See "Economics From an Objectivist Viewpoint" at //rkba.org/libertarian/king/chaptr04.htm (visited April, 2001).
52 Id. at 1.

than others, nor the fact that there are some activities that only a few laborers can perform at all (such as make amazing three point jump shots).

For "hundreds of years men sought in vain for some objective standard" for a "just wage."[53] The idea that labor has an intrinsic value separate and apart from the demands of the market does not reflect reality. Is the labor value of a snow shovel manufacturer in Bangladesh, where it never snows, the same as a snow shovel manufacturer in Alaska? Due in part to these criticisms, the objective value of labor theory gave way to the Neoclassical notion that an object's value is merely what someone else is willing to pay for it, the Exchange Value.

This idea of value as something that is metaphysically subjective, meaning that value is only a human construct, is much more logical. There is no objective value of labor, or if there is then there is no way to ever discover what that value is. Though they may not recognize it as such, the hidden ideology driving many of these protesters are Marxist views of exploitation. These views have largely been discredited.

VI. The Contextual Value of Money

The wages paid to factory workers in developing nation sound grossly insufficient to the western ear. Americans can relate to how small the wages are because in the leaflets passed out on campuses or in front of Wal-Mart stores convert the Honduran wages into United States dollars instead of using the unfamiliar Lempira. By converting the money into US dollars, the protesters attempt to reinforce the gut feelings of passers by that "they" could not live on $.60 an hour, so how could anyone else. The reason that

Hondurans are willing to work for much less money than Americans is that money is worth more to them than the average American. The dollar is subjectively worth more to them because of the law of the Diminishing Marginal Value (DMV) and is objectively worth more to them because their cost of living is so much lower.

A) The Diminishing Marginal Value of Money

A typical exercise done during the section on DMV in economics 101 requires ten cookies, a pad and a pencil. A lucky (but soon to be unlucky) student volunteer is plucked from the class and told to sit in front of a bowl of cookies and a pad of paper. The student is asked to eat a cookie every five minutes and rate his or her enjoyment of each cookie. Inevitably, the student initially rates the first few cookies very highly, but soon enjoys each cookie less and less. What this example proves is that the more of something that someone has, the less utility that person derives from acquiring an additional unit. This is true with everything, including money. The more money a person has the less utility he receives from getting an additional dollar.

This utility can be translated into exchange value. Because the first few dollars (or cookies) produce more utility, a person will be willing to provide more in exchange for that unit[54] than the later units. Depending upon where one is on the DMV curve, the exchange values for additional units vary greatly. Because the mean Honduran laborer has much less money than the mean American university student, and is therefore lower

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[53] See Id.at 1.

on the DMV curve, the Honduran laborer's exchange value for a dollar is much higher than an American university student. This creates a situation where a Honduran laborer is willing to work much more per dollar than the American university student. Because the Honduran derives more utility from $.60 than an American university student, it is subjectively worth more to him or her.

B) The Cost of Living Disparity

The other main reason that Hondurans value $.60 more than the mean American university student is that $.60 in Honduras is objectively worth more than $.60 in America because of the cost of living disparity. A dollar can buy significantly more in Honduras than in the United States, so much so that to convert their Honduran wages into US dollars to appeal to the tender mercies of passers by is almost disingenuous.

Few American university students would be shocked and appalled upon learning that an American factory worker could receive $.60 an hour in 1947, because the assumption is that all costs were on a lower scale. In fact, when inflation is factored back through time, $.60 in 1947 is equivalent to $5.15 in 2000[55], the current US minimum wage as of 1997[56]. In 1938, the first year that the minimum wage was introduced, the wage was set at $.25 an hour[57], yet this offends no one today because of the effect of inflation. Why then does it necessarily offend American university students that today in

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[54] This is the basis of the neoclassical idea of voluntary exchanges. A person will offer as much in exchange such that he or she gains a utility profit.

[55] See www.westegg.com/inflation/ (visited April, 2001).

[56] See www.dol.gov/dol/esa/public/minwage/chart.htm (visited April, 2001).

Honduras workers make $.60 an hour even though the same contextual reasoning should apply to regional differences as it does apply to temporal differences?

The cost of living is much lower on Honduras than in the United States, and as a result, a dollar has more purchasing power there than it does in America, just as a dollar some time in the past had more purchasing power than does a current dollar. A few examples of Honduran prices highlight the gap in the United States' cost of living from Honduras':

"Men's' Haircut- $1.61

Pound of T-bone Steak-$1.21

Pound of Tomatoes--$.36

Telephone Basic Service-$1.61

Doctor's Office Visit-$8.00

Maid-$25.00 per month

Cost for Movie ticket-$1.21

Eating out at an excellent restaurant-$12.00 per person

Beautiful, furnished six room apartment (2 bedrooms) in excellent neighborhood-$240

Good restaurant-$6.00 per person

Case of National Beer-$6.45[58]"

When these prices are compared to comparable United States' prices of similar goods, the differences are telling. When one factors backwards from the United States' price for an item in the year 2000 until the Honduran price appears next to a date in

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[57] See Id. at 1.

[58] These prices are quoted directly from www.trendyservices,com/ecosys3.htm (visited April, 2001).

United States' history, it becomes apparent that the regional differences are closely analogous to temporal differences in cost of living. An representative example is that of the cost of a movie ticket in Honduras only being $1.21, while the price for an evening movie at the Carmike Theater in Charlotteville, Virginia (by no means a bustling metropolis) is $7.00. The Honduran movie ticket price is the equivalent of prices in the United States in 1964[59]. Similarly, a furnished two-bedroom apartment in Charlottesville, Virginia costs around $800.00 a month[60] while in Honduras an equivalent apartment costs around $240.00 a month[61]. The Honduran apartment price matches up with United States' prices in 1975.[62] Clearly the purchasing power of a dollar in Honduras is much greater than in the United States. This makes the US dollar objectively more valuable in Honduras than the United States.

The combination of their different points on the DMV curve and the cost of living differences makes it difficult to compare the wages of Hondurans to Americans. The current protesters either do not understand or choose to overlook these contextual concerns for the more simple rhetorical power of comparing wages dollar for dollar. This approach skews the figures so that the protesters can attempt to convince passers by that since "they" could not live on that wage, no one could live on that wage.

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[59] This was calculated using the inflation calculator at www.westegg.com/inflation/. The procedure was to enter in the current United States price, then go back in time until the Honduran price closely matches a year in US history.

[60] The apartment search was done at www.apartments.com. The $800.00 price was an average of the two apartment buildings that offered two bedroom furnished apartments.

[61] See trendy services. Id at 3.

[62] See supra footnote 59.

VII. Why Stronger Labor Regulations Will Actually Hurt Hondurans

Several groups in developed nations have attempted to force the World Trade Organization to extend its authority over "labor standards and labor rights"[63], but the initiative was blocked by the developing nations[64]. Why would Honduras and other poor countries reject such a proposal to increase their labor standards, and thus perhaps increase the standard of living of their nationals? They rejected it because they realized, as do most economists, the harsh realities of macroeconomics.

Several consequences would flow from externally imposed standards of labor on developing nations. Similar to arguments over minimum wage increases, whenever externally imposed standards are higher than what the market requires the cost of production will go up. As labor has attached to it higher standards then it becomes more expensive as compared to capital. This will result in a shift of the labor/ capital balance that will produce more unemployment. This is the main reason developing nations are opposed to these labor standards.

Externally imposed labor standards in the developing world are also detrimental in other respects. If the wages of unskilled factory workers increases too much vis a vis skilled jobs, then this will create disincentives to become skilled or educated. This will reaffirm the cycle of developing nations permanently on the low paying production end of development. Another major concern of developing nations is also the cynical hope of many protectionist American unionists. That is that production may move from the poorer developing nations- that cannot afford to maintain the standards of the developed

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[63] See "What the Public Should Know about the World Trade Organization" by Alan V. Deardorff and Robert M. Stern for the Research Seminar in International Economics, School of Public Policy at the University of Michigan. Found at www.spp.umich.edu/rsie/acit/ (visited April, 2001).

world and whose productivity levels are lower than those of laborers in developed nations- to the richer developed nations. This would in effect price the developing world out of the international labor market.

VIII. The Case for Decentralized Regulation of Sweatshops

The all-or-nothing approach employed by the WRC, that boycotts goods that were not created with their high labor standards, is not an effective way to create positive changes in these developing nations. Most factories workers in developing nation would, and should, be "aghast at the idea of American Consumers boycotting certain . . .clothing in protest"[65] of their working conditions. The less products from sweatshops that are purchased the less demand there is in these nations for labor. This has the preposterous effect of valuing no income over what the protestors consider to be paltry income. If these workers livelihood is really the focus of these protesters then the simple answer would be to "buy more from sweatshops, not less."[66]

The top down WTO approach is also untenable. Procrustean standards applied to all different situations are necessarily both over and under inclusive. If the standard were set high, then this would have the effect of benefiting wealthier better-trained workers in the developed world at the expense of the less skilled poorer workers of the developing world. If the bar is set too low, then nations would be at an economic disadvantage to

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[64] See Id at 26.
[65] See "Two Cheers for Sweatshops" by Nicholas D. Kristof and Sheryl Wudunn in The New York Times Magazine at www.nytimes.com/library/magazine/home/20000924mag-sweatshops.htm (visited March, 2001).
[66] Id. at 3.

have standards any higher than the international bar, which would have the effect of wealthier nations scaling back on some of their national labor standards.

The best approach to increasing the welfare of the workers in developing nations is a gradual one. The most promising new development was the founding of the Fair Labor Association (FLA) in 1996. The FLA is a diverse group of human rights organizations, large MNCs, such as Nike and Adidas, 135 universities across the nation, and various religious organizations.[67] This group agreed to a nine point code for "any apparel factory anywhere in the world- including rules against forced labor and child labor, as well as freedom of association, minimum wages, maximum working hours, lighting bathrooms and safety."[68] The FLA does it's own monitoring at the production end, which includes "surprise inspections and follow-ups."[69] This may appear to be a case of the fox guarding the hen house, but this voluntary union of corporations is the only realistic way to improve the conditions in developing nations. Hopefully other organizations will join the FLA and resist the quick fix of the WRC.

Critics of the FLA claim that their standards are too lenient and that their reforms are too gradual. This view ignores the fact that the international wealth disparities are too great to merely be painted over with a cosmetic change. College students, and indeed all Americans, should be concerned about the conditions in the developing world, but in our empathy we should not be blind to the economic ramifications of our actions.

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[67] See Knight. Id. at 2.
[68] See Id. at 2.

[69] See Id. At 2.